

# PERAC AUDIT REPORT



## Chelsea Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2007



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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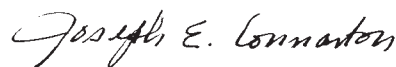
January 16, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Chelsea Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and Martin Feeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## I. Membership

PERAC auditors sampled members' deductions to determine that the correct rates are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979.

- A payroll deduction report disclosed a significant number of active members' regular compensation used to calculate their retirement contributions did not agree with the compensation used to calculate their additional 2% deduction base. This indicated there was compensation that was not coordinated between the multiple classifications of active members in the payroll system.
- An inspection of the payroll register disclosed that pay code #800 Night Shift premium was classified as exempt from retirement contributions. The night shift premium would appear to meet the criteria set forth in the regulations as regular, normal and recurring on an indefinite basis.
- There are several Collective Bargaining Agreements entered into by the governmental units that include clothing allowance payments for employees. Retirement deductions have not been withheld from these payments. These are regular, recurring payments which should be classified as regular earnings for retirement purposes.
- Compensation for holiday pay, stipends for training and hazmat duty as well as longevity pay is not consistent between the multiple classifications of active members in the payroll system.
- The school department did not require retirement contributions for compensation paid to both paraprofessional teacher aides and security monitors during the summer period. This has been an established practice for several years.
- The Retirement System has not determined whether some City payroll codes qualify as regular compensation.

**Recommendation:** The System must comply with G.L. c. 32, § 22(1) (b), and PERAC Memo #43/1999 which discusses the additional 2% deductions.

According to 840 CMR 15.03 (g), any amounts paid as premiums for shift differentials are normally considered regular compensation since they are regular, ordinary, normal, recurring, repeated and of indefinite duration. The Board must comply with the regulations and reclassify pay code #800 Night Shift premium as qualifying for retirement contributions. Every effort should be made to recover contributions lost as a result of this error.

Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1) (a) which states in part: "(a) to be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement..."

The Board must formally instruct the payroll officers to begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be the same as the member's other compensation, plus the additional 2% if the total regular compensation exceeds \$30,000 on an annualized basis for any pay period.

The school department should be instructed to deduct contributions from compensation paid to members regardless of the season. These are active members of the system and they should contribute retirement deductions for the additional regular compensation earned during the summer.

The Retirement System should be notified of and review all new pay codes to determine their proper classification for qualifying as retirement compensation. In addition, the Retirement System should continue to monitor payroll reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should continue to receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates.

**Board Response:**

- The retirement board is in the process of reviewing the 2% deduction calculations in order to determine the correct amount of regular compensation. In the case of longevity payments this calculation can be skewed incorrectly depending if the payment is made with a regular check or is paid separately. The retirement board, along with the City Auditor, is reviewing all payroll classifications to be sure that the 2% deduction is properly calculated and withheld.
- The pay code #800, Night Shift Premium, has been corrected so that it is labeled as regular compensation.
- The Board agrees that clothing allowance payments should be included in regular compensation as mandated by PERAC and has started withholding retirement deductions on all future clothing allowance payments.
- The pay codes for compensation paid for holidays and hazardous duty are in the process of being corrected such that payments will be included in the calculation for regular compensation purposes.
- Payments made to School Department employees for summer work. The Chelsea Retirement Board is in the process of requesting a legal opinion from PERAC's General Counsel before responding to this issue since the payments may not be regular compensation as defined in M.G.L. c.32, §1 and Regulation 840 CMR 15.03.
- The Retirement System and the City of Chelsea payroll office are in the process of reviewing all payroll codes to be sure that only regular compensation is being used in calculating member deductions.

**2. Current Retirees**

PERAC auditors inspected the files of recent retirees to determine that the correct benefit was calculated by confirming the wage, age and service factors. We observed that the three-year average salary information is "backed into" from contributions posted to the System for employees other than members of the Police and Fire Department. Department-head approval and verification of salary information was not found in the files inspected. This approach relies on correct rate assignments and reliable payroll calculations of both the regular and 2% additional contribution deductions. We identified 8 situations from our sample of 56 retirees where there were discrepancies between the contributions collected and the regular compensation used to calculate the benefit awarded. In addition, PERAC auditors identified many instances where the regular compensation used to calculate retirement contributions was different from the compensation used to calculate the additional 2% deduction base. These factors combine to indicate a compelling case to use actual payroll records to confirm the regular compensation used in the high three-year average portion of the benefit calculation.

One member's benefit calculation was based upon thirty-six plus years of creditable service. However, the details in the file only substantiated creditable service for twenty-six plus years. Further review resulted in a determination that a transposition error effectively added ten years to this member's creditable service. The system has overpaid this retiree since January, 2005.

**Recommendation:** We recommend that the System require department heads to review and acknowledge the salary history of prospective retirees. Actual payroll records should be used when calculating retirement benefits as required under G.L. c. 32, § 5. Given the number of discrepancies between the payroll records examined and the retirement system's records as noted in this and Finding #1, calculating backwards from annual deductions as the primary criteria for determining a benefit is currently not considered a reliable premise.

The System must comply with the provisions of G.L. c. 32. The benefit allowed to this retiree must be immediately recalculated to eliminate the ten years of erroneous creditable service used to calculate the original retirement benefit. Every effort should be made to recover the benefit overpaid as a result of this error.

**Board Response:**

- The Chelsea Retirement System agrees with this finding; however, the retirement office will be working directly with the City Auditor to capture the actual payroll needed for the retirement calculation. Further, the system is in the process of reviewing the accounts of all recent retirees to determine if any adjustment is needed regarding salaries used to calculate retirements.
- The retiree whose benefit was miscalculated using an incorrect number of years of creditable service has had the benefit adjusted and reduced to the appropriate retirement allowance.

### **3. Appropriations**

A review of the appropriations due the Chelsea Retirement System during the audit period, as determined by the PERAC Actuary under the provisions of G.L. c. 32, § 22D, determined that the Chelsea Housing Authority (CHA) was not remitting its appropriation according to the August 1 and February 1 funding schedule established by the System. Instead, CHA paid its appropriation for FY 2006, which was due on August 1, 2005 and February 1, 2006, on December 14, 2005 and June 21, 2006 respectively. CHA paid its appropriation for FY 2007, which was due on August 1, 2006 and February 1, 2007, on December 20, 2006 and July 18, 2007 respectively. CHA paid its appropriation for FY 2008, which was due on August 1, 2007 and February 1, 2008, on January 1, 2008 and July 9, 2008 respectively. This has been an issue for several years and was a finding in the previous audit report.

**Recommendation:** The retirement board must address the issue with the Chelsea Housing Authority to insure appropriations are collected on a timely manner under the provisions of G.L. c. 32, § 22 (7) (c). The Board is obligated to collect the full amount of the assigned appropriations from the Chelsea Housing Authority on schedule and no later than the end of each respective fiscal year. Whenever the actual payments do not conform to the schedule, the System should notify the PERAC actuary, who will revise the appropriation to reflect interest at the rate assumed in the most recent actuarial valuation, which is currently 8.25%. It should be noted, however, that the actual cost of late payments is that of investment income foregone by the System, which in 2007 was 12.10%. Failure to satisfy its obligations to the System can result in legal action for recovery by contract as noted in G.L. c. 32, § 22 (7) (c) (iv). The Board Chairman should

consider meeting with officials of the Housing Authority to determine how the Housing Authority can meet its obligations within the required time frame.

**Board Response:**

The Chelsea Retirement System agrees with this finding and is continuing its efforts to monitor the payments made by the Chelsea Housing Authority. Additionally, the Board is working with the PERAC Actuarial staff to make sure that the funding schedule is timely and includes adjustments in interest calculations for any late payments. Lastly, the Chairman of the Chelsea Retirement System will be meeting with the Chairman of the Chelsea Housing Authority, Mr. Michael McLaughlin, in an effort to resolve this continuing situation.

**4. Annuity Reserve Fund Interest**

A review of the Annuity Reserve Fund interest calculation for the year ended December 31, 2007 disclosed that the interest is overstated by \$5,111.71.

**Recommendation:** Prior to the end of 2008, the System must record an adjusting journal entry in the amount of \$5,111.71 to decrease the balance of the Annuity Reserve Fund. The offsetting general ledger account is the Pension Reserve Fund.

**Board Response:**

The recommended adjusting entry in the amount of \$5,111.71 has been made and will be reflected on the Annual Statement for the year ending December 31, 2008, thereby correcting the interest calculation.

**5. 3 (8)(c) Billing and Payment**

An inspection of the letters and invoices generated and received from and to other systems for the portion of benefits attributable to time spent in the Chelsea Retirement System disclosed the following:

- For 2005, 2006 and 2007, the Board had net under billed by a total of \$30,217.55
- It was also noted that the pension basis used to calculate the billings was incorrect in some cases, even though the billings were correct.
- In 2005, four deceased retirees should not have been billed.

**Recommendation:** The Board should review the billings for the years 2005, 2006, 2007 and the most recent billing for payments to be received in 2008. The correct amounts should be calculated and new bills indicating the amounts due should be sent to the relevant Boards.

The amounts collected for the deceased retirees that should not have been billed should be returned to the respective Boards. The billings for those retirees that should have been made in 2005 and 2006 should be made immediately. A review of the amounts billed, percentage used, and calculations of amounts due should be made to ensure that future billings reflect the correct amounts. The Board should also review the individual retiree's retirement letter issued by PERAC to ensure the amounts used will be correct.

**Board Response:**

The Retirement System is processing the overages/shortages and will send out new bills and make restitution where applicable.

## **6. Minutes and COLA Approvals**

A reading of the minutes revealed the Board does not officially convene in a duly called meeting to discuss the approval for a Cost of Living Allowance (COLA) for retirees up to the first \$12,000 of benefits. Each year, a retirement board subject to G.L. c. 32, § 103 (c), in order to comply with Ch. 17, Sect. 8 (c) of the Acts of 1997 and in addition, Ch. 127, Sect. 51 of the Acts of 1999, must give the appropriate legislative body written notice thirty days before holding a public meeting called to decide whether or not to elect to grant an increased COLA.

**Recommendation:** The Board must comply with the Open Meeting Laws of the Commonwealth, as described in G.L. c. 39, § 23B. The Board is required to provide written notice thirty days before holding a public meeting to decide whether to grant an increased COLA benefit. This period should commence subsequent to the annual notification from PERAC of the increase to the United States Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) as computed by the Commissioner of Social Security. Pursuant to Section 103 (i), a Retirement Board, with proper notice to the legislative body, may elect to increase this percentage up to 3%, at a duly called meeting.

### **Board Response:**

The Chelsea Retirement Board agrees with this finding and will begin notifying the Chelsea City Council when the next COLA is announced by PERAC.

## **7. Minutes and Executive Sessions**

A reading of the minutes revealed that the Board does not officially record the vote of each member on a roll call vote prior to convening in Executive Session. In addition, minutes of Executive Sessions must include a record of every vote taken. All such votes must be recorded roll call votes. That would include the vote taken to end the Executive Session and return to the regular meeting.

**Recommendation:** The Board must comply with the Open Meeting Laws of the Commonwealth, as described in G.L. c. 39, § 23B. The Board is required to record the minutes of Executive Sessions in accordance with 840 CMR 6.12 and 10.12(3)(e), and G.L. c. 32, § 20(5).

### **Board Response:**

The Chelsea Retirement Board agrees with this finding and will institute the changes recommended when the next Executive Session is called, in particular, maintaining the Executive Session minutes in a separate minute book.

## **Observation**

The Chelsea Retirement Board retains the minutes of Executive Sessions in the same public record that includes the minutes of its regular meetings. Occasionally, these minutes may contain details inappropriate for public disclosure. A separate record that contains the minutes of each Executive Session is required. The Board should review Executive Session minutes closely when considering a vote to release them. The Board may decide to keep some or all portions of such details confidential in order to avoid publication of an individual's medical condition or anything else that should be withheld from public disclosure.

## **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***



# STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2007	2006	2005
<b>Net Assets Available For Benefits:</b>			
Cash	\$259,987	\$667,857	\$540,294
PRIT Cash Fund	176,615	176,637	176,343
PRIT Core Fund	71,987,769	62,828,913	52,228,982
Interest Due and Accrued	0	0	0
Accounts Receivable	4,169,216	3,637,290	3,349,407
Accounts Payable	(9,384)	0	0
<b>Total</b>	<u>\$76,584,203</u>	<u>\$67,310,697</u>	<u>\$56,295,025</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$23,697,029	\$22,431,660	\$21,180,762
Annuity Reserve Fund	5,948,120	5,744,777	5,510,683
Pension Fund	9,828,224	9,023,935	7,870,198
Military Service Fund	2,364	2,350	2,336
Expense Fund	0	0	0
Pension Reserve Fund	<u>37,108,466</u>	<u>30,107,976</u>	<u>21,731,047</u>
<b>Total</b>	<u>\$76,584,203</u>	<u>\$67,310,697</u>	<u>\$56,295,025</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$19,850,146	\$5,355,320	\$7,214,805	\$2,322	\$0	\$17,336,060	\$49,758,654
Receipts	2,596,770	164,955	7,337,982	14	458,259	4,401,845	14,959,825
Interfund Transfers	(718,786)	725,645	0	0	0	(6,859)	(0)
Disbursements	(547,368)	(735,237)	(6,682,590)	0	(458,259)	0	(8,423,454)
Ending Balance (2005)	21,180,762	5,510,683	7,870,198	2,336	0	21,731,047	56,295,025
Receipts	2,494,441	170,390	8,022,145	14	535,161	8,376,929	19,599,080
Interfund Transfers	(817,835)	817,835	0	0	0	0	0
Disbursements	(425,709)	(754,130)	(6,868,408)	0	(535,161)	0	(8,583,408)
Ending Balance (2006)	22,431,660	5,744,777	9,023,935	2,350	0	30,107,976	67,310,697
Receipts	2,666,541	175,139	7,951,878	14	595,975	7,005,602	18,395,148
Interfund Transfers	(860,735)	865,847	0	0	0	(5,112)	0
Disbursements	(540,437)	(837,643)	(7,147,588)	0	(595,975)	0	(9,121,642)
Ending Balance (2007)	<u>\$23,697,029</u>	<u>\$5,948,120</u>	<u>\$9,828,224</u>	<u>\$2,364</u>	<u>\$0</u>	<u>\$37,108,466</u>	<u>\$76,584,203</u>

# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,427,365	\$2,325,100	\$2,294,827
Transfers from Other Systems	90,295	18,040	139,708
Member Make Up Payments and Re-deposits	6,843	11,361	31,625
Member Payments from Rollovers	10,815	20,830	19,402
Investment Income Credited to Member Accounts	<u>131,223</u>	<u>119,111</u>	<u>111,207</u>
Sub Total	<u>2,666,541</u>	<u>2,494,441</u>	<u>2,596,770</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>175,139</u>	<u>170,390</u>	<u>164,955</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	89,630	93,699	99,763
Pension Fund Appropriation	<u>211,483</u>	<u>697,850</u>	<u>564,111</u>
Sub Total	<u>7,650,765</u>	<u>7,230,596</u>	<u>6,674,108</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>14</u>	<u>14</u>	<u>14</u>
Sub Total	<u>14</u>	<u>14</u>	<u>14</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>595,975</u>	<u>535,161</u>	<u>458,259</u>
Sub Total	<u>595,975</u>	<u>535,161</u>	<u>458,259</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	17,685	25,671	28,282
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,584	6,537	0
Miscellaneous Income	2,178	14,948	2,664
Excess Investment Income	<u>6,984,155</u>	<u>8,329,773</u>	<u>4,370,899</u>
Sub Total	<u>7,005,602</u>	<u>8,376,929</u>	<u>4,401,845</u>
<b>Total Receipts</b>	<u>\$18,395,148</u>	<u>\$19,599,080</u>	<u>\$14,959,825</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$305,147	\$303,693	\$300,799
Transfers to Other Systems	<u>235,290</u>	<u>122,015</u>	<u>246,569</u>
Sub Total	<u>540,437</u>	<u>425,709</u>	<u>547,368</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	796,314	754,130	712,770
Option B Refunds	<u>41,328</u>	<u>0</u>	<u>22,467</u>
Sub Total	<u>837,643</u>	<u>754,130</u>	<u>735,237</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	3,619,932	3,400,378	3,236,627
Survivorship Payments	441,010	416,946	381,536
Ordinary Disability Payments	138,656	143,115	158,084
Accidental Disability Payments	1,580,236	1,533,745	1,564,746
Accidental Death Payments	1,065,175	1,060,467	1,025,931
Section 101 Benefits	131,421	125,709	145,416
3 (8) (c) Reimbursements to Other Systems	171,158	188,048	170,250
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>7,147,588</u>	<u>6,868,408</u>	<u>6,682,590</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,750	16,500	16,500
Salaries	103,643	99,238	98,478
Legal Expenses	12,000	12,000	12,000
Medical Expenses	0	0	0
Travel Expenses	2,435	2,976	3,506
Administrative Expenses	49,103	54,807	32,640
Furniture and Equipment	16,835	100	0
Management Fees	365,934	335,241	219,978
Custodial Fees	0	0	16,148
Consultant Fees	0	0	30,000
Rent Expenses	0	0	0
Service Contracts	12,886	14,299	11,232
Fiduciary Insurance	<u>17,389</u>	<u>0</u>	<u>17,776</u>
Sub Total	<u>595,975</u>	<u>535,161</u>	<u>458,259</u>
<b>Total Disbursements</b>	<u>\$9,121,642</u>	<u>\$8,583,408</u>	<u>\$8,423,454</u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
<b>Investment Income Received From:</b>			
Cash	\$10,255	\$13,543	\$4,582
Short Term Investments	0	0	10,920
Fixed Income	0	0	92,568
Equities	0	0	24,763
Pooled or Mutual Funds	2,305,384	1,972,766	1,152,909
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>2,315,639</u>	<u>1,986,310</u>	<u>1,285,741</u>
<b>Plus:</b>			
Realized Gains	5,568,680	3,989,257	2,592,155
Unrealized Gains	5,574,560	5,353,161	3,644,847
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>11,143,240</u>	<u>9,342,418</u>	<u>6,237,002</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	0	0	(409,960)
Unrealized Loss	(5,572,373)	(2,174,278)	(2,007,275)
Interest Due and Accrued - Prior Year	0		(174)
Sub Total	<u>(5,572,373)</u>	<u>(2,174,278)</u>	<u>(2,417,409)</u>
<b>Net Investment Income</b>	<u>7,886,506</u>	<u>9,154,450</u>	<u>5,105,335</u>
<b>Income Required:</b>			
Annuity Savings Fund	131,223	119,111	111,207
Annuity Reserve Fund	175,139	170,390	164,955
Military Service Fund	14	14	14
Expense Fund	595,975	535,161	458,259
<b>Total Income Required</b>	<u>902,351</u>	<u>824,676</u>	<u>734,435</u>
Net Investment Income	<u>7,886,506</u>	<u>9,154,450</u>	<u>5,105,335</u>
Less: Total Income Required	<u>902,351</u>	<u>824,676</u>	<u>734,435</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$6,984,155</u>	<u>\$8,329,773</u>	<u>\$4,370,899</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$259,987	0.4%	100%
PRIT Cash Fund	176,615	0.2%	100%
PRIT Core Fund	<u>71,987,769</u>	<u>99.4%</u>	100%
<b>Grand Total</b>	<b><u>\$72,424,371</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2007, the rate of return for the investments of the Chelsea Retirement System was 12.10%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Chelsea Retirement System averaged 14.60%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chelsea Retirement System was 9.28%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Chelsea Retirement System voted to invest 100% of its assets in the Public Retirement Investment Trust managed by the Public Retirement Investment Management Board. Having done so, all of their previous supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission, have been effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Chelsea Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There is no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2) (a) (iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Chelsea Retirement System submitted the following supplementary membership regulations which were approved by the Public Employee Retirement Administration Commission on:

January 26, 2005

Part-Time Service Credit

Effective January 26, 2005, in order to be eligible for membership in the Chelsea Contributory Retirement System, permanent part-time or permanent full time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts filling in for vacation or sick time, do not count towards the twenty-hour minimum requirement for membership.

December 1, 2004

Effective December 1, 2004 in order to be eligible for membership in the Chelsea Contributory Retirement System, permanent part-time or permanent full time employees must be hired to work at least twenty (20) hours per week in a calendar year. A permanent part-time or permanent full time employee is defined as any employee who is hired to work at least twenty (20) hours per week in a calendar year, or if employed in more than one position, such that when the hours of employment are added together those hours shall equal at least 20 hours per week in a calendar year. Any additional time worked on a temporary or employee elected basis, such as additional shifts filling in for vacation or sick time, do not count towards the twenty-hour minimum requirement for membership.

February 13, 1998

Military Service Credit

Any member seeking military service credit in accordance with the provisions of C. 71 of the Acts of 1996, who is eligible for such credit as of September 19, 1997, must submit an application for such service on or before March 16, 1998. Members, who become eligible for military service credit after September 19, 1997, shall be notified of their eligibility by the Retirement Board and must submit an application for such credit within 180 days of receipt of notification. The Retirement Board will review each application to determine the member's eligibility, and will notify each eligible applicant in writing of the amount of service which may be purchased, and of the amount of the required payment. The member must then remit the full-required payment in one lump sum to the Retirement Board on or before the forty fifth day following the member's receipt of notification of eligibility, or on or before the date immediately preceding the member's date of retirement, whichever date first occurs.



## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 5, 1986

#### Membership

Permanent full time employees of the City will be admitted to membership in the retirement system subject to the following conditions:

- The Department Head shall supply the Retirement Board with a list of all employees, their annual salaries, and the date of their original appointment to said office.
- The deduction to be withheld from the salary of each member who became an employee after January 1, 1984 must be 8%.
- Employees may request, in writing, permission to make up payments for their previous employment with the City or any agency which has been accepted as a member of the retirement system. The amount to be withheld for the make-up period only, not extending beyond January 1, 1984 shall be based on the percentage in effect on the original date of the employee's employment.
- The make up payment of those deductions that would have been made, had the employee become a member of the Retirement system on the original date of employment, shall be the percentage in effect on said date, plus interest to the completion of the make up payment. For the period beginning January 1, 1984, and thereafter, the percentage withheld is 8%.
- Each employee requesting permission to make up payments for their previous employment shall provide the Retirement board with a verified list of salaries, earned by them, by calendar year, not including any overtime or bonuses, so that a make up payment can be calculated.
- Any member who has previously been employed by the Commonwealth of Massachusetts or any political subdivision thereof, and a member of its retirement system must inform the retirement board so that inquiry can be made as to the disposition of said employee's accumulated deductions.
- Each employee seeking to become a member of the Retirement System must complete an enrollment form, which must be accompanied by a copy of said employee's birth certificate, and if a veteran, a copy of their military discharge papers.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 28, 1984

#### Membership

All new members must file proof of their date of birth with their application for membership.

#### Access to Medical Information

No medical information contained in an employee file or in a medical panel report will be dispensed to anyone without the written permission of the member concerned, whether retired or not - provided that authorized individuals such as representatives of the Division of Public Employee Retirement and the Retirement Board may still be granted access.

#### Creditable Service

Upon granting membership to permanent intermittent employees of the school cafeteria, it was determined that these employees shall be granted credit for that proportion of the number of hours worked as it bears to the number of hours a regularly employed full time cafeteria employee is required to work during a school year, to obtain a full year of creditable service, 1400 hours.

#### Disability Waiver

Any waivers of a physical condition that may have been signed by an employee in order to obtain their positions with the City must be sent to the Retirement Board at once. Any future such waivers that may be signed must be forwarded to the Retirement Board immediately.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Edward M. Dunn

Appointed Member: Richard A. Incerto                      Term Expires: Indefinite

Elected Member: Joseph M. Siewko                      Term Expires: 12/17/2008

Elected Member: Frederick A. Nowicki                      Term Expires: 10/12/2010

Appointed Member: Carolyn M. Russo                      Term Expires: 01/29/2009

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$2,000,000 Fiduciary Coverage
Elected Members:	)	RLI Insurance through MACRS Rider
Appointed Member:	)	\$1,000,000 Fidelity Coverage
Staff Employees:	)	National Union Fire Insurance

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2007.

The actuarial liability for active members was	\$67,349,762
The actuarial liability for vested terminated members was	701,372
The actuarial liability for non-vested terminated members was	345,930
The actuarial liability for retired members was	<u>62,001,001</u>
The total actuarial liability was	130,398,065
System assets as of that date (actuarial value) were	<u>62,031,961</u>
 The unfunded actuarial liability was	 <u>\$68,366,104</u>
The ratio of system's assets to total actuarial liability was	47.6%
As of that date the total covered employee payroll was	\$26,951,807

The normal cost for employees on that date was 8.36% of payroll

The normal cost for the employer was 5.45% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum  
 Rate of Salary Increase: Varies by group and years of service

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2007	\$62,031,961	\$130,398,065	\$68,366,104	47.6%	\$26,951,807	253.7%
1/1/2005	\$50,307,347	\$114,625,947	\$64,318,600	43.9%	\$24,442,724	263.1%
1/1/2003	\$40,964,402	\$105,624,172	\$64,659,770	38.8%	\$23,843,392	271.2%
1/1/2001	\$39,748,307	\$88,940,495	\$49,192,188	44.7%	\$20,265,717	242.7%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Retirement in Past Years</b>										
Superannuation	4	7	8	4	10	24	9	14	5	2
Ordinary Disability	0	0	1	0	0	1	0	0	0	0
Accidental Disability	2	1	0	3	3	0	0	1	0	1
<b>Total Retirements</b>	6	8	9	7	13	25	9	15	5	3
Total Retirees, Beneficiaries and Survivors	440	434	426	405	398	428	442	409	393	395
Total Active Members	587	618	657	646	663	627	689	690	670	664
<b>Pension Payments</b>										
Superannuation	\$2,433,361	\$2,557,300	\$2,495,510	\$2,523,600	\$2,587,970	\$2,903,563	\$3,143,515	\$3,236,627	\$3,400,378	\$3,619,932
Survivor/Beneficiary Payments	376,012	413,137	391,573	366,168	341,777	358,204	395,654	381,536	416,946	441,010
Ordinary Disability	190,113	180,386	174,904	168,965	166,103	168,859	166,499	158,084	143,115	138,656
Accidental Disability	1,630,966	1,680,203	1,654,347	1,704,245	1,688,078	1,592,978	1,552,815	1,564,746	1,533,745	1,580,236
Other	946,172	904,648	917,726	945,098	1,047,368	1,247,529	1,119,136	1,341,597	1,374,224	1,367,754
<b>Total Payments for Year</b>	<u>\$5,576,624</u>	<u>\$5,735,674</u>	<u>\$5,634,060</u>	<u>\$5,708,076</u>	<u>\$5,831,296</u>	<u>\$6,271,133</u>	<u>\$6,377,619</u>	<u>\$6,682,590</u>	<u>\$6,868,408</u>	<u>\$7,147,588</u>

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